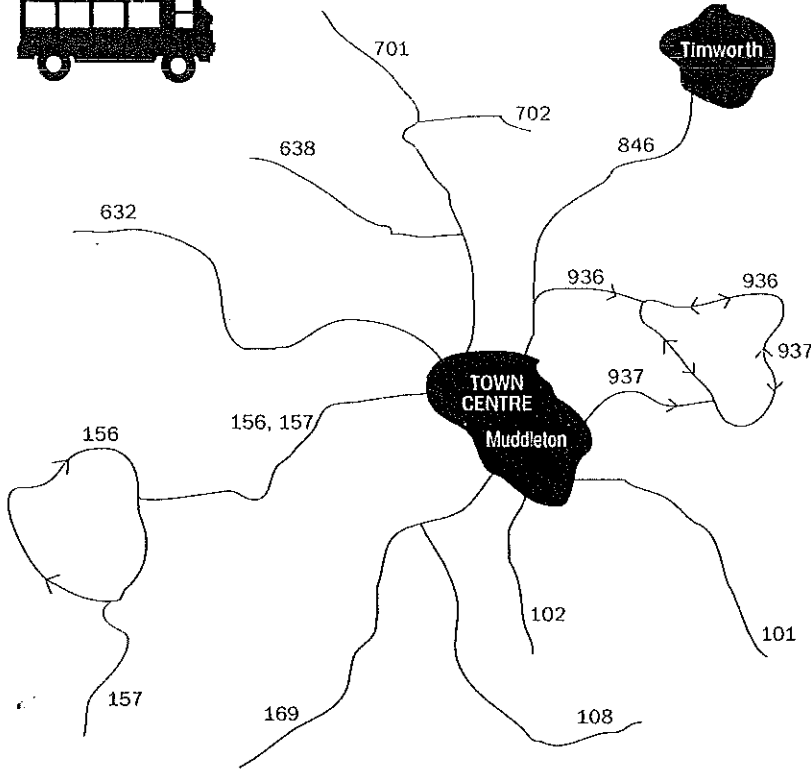


Monopoly



Average bus fare (£)	0.4	0.5	0.6	0.7	0.8	0.9	1.00
Number of passenger journeys (millions)	1.6	1.3	1.1	1.0	0.9	0.7	0.5
Total costs (£ millions)	1.3	1.15	1.0	0.9	0.7	0.5	0.4

STUDY POINTS

You are the owner and manager of the bus company in Muddleton. You have a monopoly on all your routes shown on the map.

- 1 You estimate that the number of passengers using your buses will vary according to the figures in the table above. You have also made cost estimates based on the number of passengers carried. What price will you set for your average ticket?
- 2 The local environmental group says that there are too many people using cars in the town. It would be far better if public transport could carry more people. They lobby you to reduce

your fares. Should you reduce them?

- 3 One of your bus drivers decides to set up in competition with you. He buys a second-hand bus and starts to operate a service on one of your busiest and most profitable routes. What are you going to do about it?
- 4 You are receiving an average of 40 letters a week complaining about (a) buses being late, (b) buses being too old and uncomfortable and (c) staff being rude to passengers. Explain what you are going to do about each of these complaints.

'Ford's refusal to grant other companies licences to manufacture or sell replacement car body panels is anti-competitive and "clearly adverse to the public interest", the Monopolies and Mergers Commission declared yesterday.' (Source: *Financial Times*, 1 March 1985)

Ford, the motor car company, had refused to allow other companies to manufacture replacement panels for Ford cars. According to the Monopolies and Mergers Commission (the government watchdog which investigates monopolies), this led to:

- higher prices for consumers;
- less INNOVATION (other companies had started the manufacture of part panels to keep down the costs to motorists);
- higher profits for Ford.

Ford, here, was being accused of acting as a **MONOPOLIST**. A monopolist is a firm that is the only supplier of a product in the market. Ford, by refusing a licence to other manufacturers, was making sure that the only body panels that would fit Ford cars would be made by Ford itself.

Sources of Monopoly Power

A monopolist can prevent competition in the market by preventing new firms from entering the market. Economists say that a monopolist can put up **BARRIERS TO ENTRY**. A variety of barriers exist:

- **Legal barriers.** This was the source of Ford's monopoly. It had copyright for 15 years over the design of the panels and could legally stop other manufacturers from copying its body panels.
- **Cost barriers.** It may be far too expensive for another firm to set up in the industry. In the car industry, for instance, when it costs £500 million to develop just one car, it is difficult to see a new